

Message Text

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ACTION AF-10

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FM AMEMBASSY PRETORIA

TO AMEMBASSY DAR ES SALAAM

SECSTATE WASHDC 1010

INFO AMEMBASSY LUSAKA

AMEMBASSY LONDON

USMISSION USUN NEW YORK

AMCONSUL CAPE TOWN

AMCONSUL JOHANNESBURG POUCH

UNCLAS PRETORIA 2165

DAR FOR USDEL SECRETARY

E.O. 11652: N/A

TAGS: EGEN RH

SUBJECT: STANDARD BANK REPORTS TIME RUNNING OUT FOR
RHODESIAN ECONOMY

1. SUMMARY: IN ONE OF MOST EXTENSIVE REPORTS RECENTLY
PUBLISHED ON RHODESIAN ECONOMY, STANDARD BANK OF
RHODESIA PAINTS A GRIM PICTURE OF COUNTRY'S CURRENT
ECONOMIC STATE AND PROSPECTS FOR FUTURE. GDP IS ESTIMATED
TO HAVE DECLINED BY SEVEN TO EIGHT PERCENT IN REAL TERMS IN
1977. BANK BELIEVES THAT IN ABSENCE OF INTERNATIONALLY
ACCEPTED SETTLEMENT ENDING SANCTIONS AND A DE-ESCALATION
OF WAR, CURRENT YEAR IS LIKELY TO SEE A DECLINE IN GDP BY ABOUT
AS MUCH AS IN 1977. WITH WAR COSTING RH DOLS 330 MILLION
A YEAR AND FOREIGN EXCHANGE IN INCREASINGLY SHORT SUPPLY, REPORT
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STRESSED PERMANENT DAMAGE WHICH ECONOMY IS SUFFERING. BANK CONCLUDES
THAT " MORE THAN EVER BEFORE, TIME IS RUNNING OUT FOR THE ECONOMY
AND IN THE ABSENCE OF A BREAKTHROUGH TO INTERNATIONAL RECOGNITION, IT

IS FACED WITH SPECTRE OF CLOSURES AND REDUNDACIES ON A SIGNIFICANT
SCALE". BANKS HAVE IN PAST TENDED TO TAKE A PRESSIMISTIC STANCE AND
HAVE SOUGHT TO PROD THE GOVERNMENT TOWARD A SETTLEMENT. HOWEVER EVEN

IN THIS CONTEXT, STANDARD REPORT IS NOTABLE FOR ITS DESPONDENT TONE. END SUMMARY.

2. EMBASSY HAS NOW OBTAINED A COPY OF REPORT ON ECONOMIC PROSPECTS PUBLISHED IN MARCH BY STANDARD BANK OF RHODESIA. HIGHLIGHTS OF REPORT AS FOLLOWS.

3. REAL GDP DECLINED BY ESTIMATED SEVEN TO EIGHT PERCENT IN 1977. MINING OUTPUT WHICH IN LAST TWO YEARS HAS BEEN MAINSTAY OF ECONOMY SHOWED ONLY THREE PERCENT GROWTH IN 1977 AND BANK ATTRIBUTES EVEN THIS LIMITED GROWTH MORE TO STOCKPILLING THAN TO INCREASED EXPORTS. WEAK INTERNATIONAL DEMAND FOR KEY MINE COMMODITIES CITED AS MAIN CAUSE OF EXPORT WEAKNESS. AGRICULTURAL OUTPUT

GREW BY FOUR PERCENT BUT AGAIN BANK BELIEVES THIS WAS ONLY MADE POSSIBLE BY GOVERNMENT SUBSIDIES. MANUFACTURING OUTPUT FELL BY 6.1 PERCENT, THIRD SUCCESSIVE YEAR OF DECLINE. CONSTRUCTION OUTPUT FELL BY NINE PERCENT. WHAT LITTLE STIMULUS THERE WAS AROSE PRIMARILY FROM CURRENT GOVERNMENT SPENDING. BLACK EMPLOYMENT FELL BY 20-20,000 IN 1977 AND IS NOW BELOW 1974 LEVEL.

4. BANK STATES CURRENT ACCOUNT FELL BACK INTO DEFICIT IN 1977 AFTER SURPLUS OF RH DOLS 17 MILLION IN 1976. WITH DECLINING INCOME FROM
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EXPORTS, IMPORT QUOTAS WERE CUT BACK BY 20 PERCENT AT END OF 1977 AND WERE CUT AGAIN BY VARYING AMOUNT IN FIRST QUARTER OF 1978.

5. WAS IS ESTIMATED TO BE COASTING RHODESIAN GOVERNMENT RH DOLS 330 MILLION A YEAR (U.S. DOLS 490 MILLION) OF WHICH RH DOLS 220 MILLION IS GOING TO SECURITY AND RH DOLS 110 MILLION REPRESENTS ECONOMIC SUBSIDIES STEMMING FROM WAR. GOVERNMENT DEFICIT IN FY77/78 EXPECTED TO REACH AT LEAST RH DOLS 122 MILLION, DOUBLE PREVIOUS YEAR'S FIGURE. WITH WAR-RELATED SPENDING ESTIMATED TO REACH RH DOLS 400/500 MILLION IN FY 78/79 BUDGET, GOVERNMENT EXPECTED TO HAVE CONSIDERABLE DIFFICULTY IN FINANCING DEFICIT.

6. FOR 1978, BANK EXPECTS FURTHER DECLINE IN REAL GDP BY AT LEAST FIVE

PERCENT UNLESS AN INTERNATIONALLY ACCEPTABLE SETTLEMENT IS REACHED. NONE OF KEY AREAS OF ECONOMY-MINING, INDUSTRY, CONSTRUCTION OR TRADE-EXPECTED TO SHOW REAL GROWTH EXCEPT POSSIBLE AGRICULTURE. WEAK INTERNATIONAL DEMAND FOR MINE PRODUCTS MAKES PROSPECT OF RECOVERY IN EXPORTS UNLIKELY. BANK NOTED INCREASING NUMBER OF BUSINESS OPERATIONS

FACED WITH SEVERE CASH FLOW PROBLEMS. ABILITY OF BANKS AND GOVERNMENT TO HELP OUT MORE THAN TEMPORARILY IS LIMITED AND COUNTRY

FACES PROSPECT OF CLOSURES AND REDUNDANCIES ON A SIGNIFICANT SCALE.
BANK STATES FURTHER FIVE PERCENT FALL IN ECONOMY IN 1978 WOULD MEAN
REAL INCOME PER CAPITA WILL HAVE DECLINED NEARLY 27 PERCENT FROM ITS
1974 PEAK TO RH DOLS 163. IN ADDITION, BACKLOG IN BLACK
UNEMPLOYMENT SINCE 1975 IS NOW ON ORDER OF 250,000 WHILE COUNTRY
CONTINUES TO LOE SKILLED MANPOWER THOUGHT WHITE EMIGRATION
(11,000 IN 1977). BANK ESTIMATES THAT EVEN IF INTERNATIONALLY
ACCEPTED SETTLEMENT IS REACHED IN LATTER PART OF 1978, IT WOULD TAKE
COUNTRY UNTIL 1984 TO REGAIN THE 1974 LEVELS OF INCOME PER HEAD,
ASSUMING VERY RAPID AVERAGE ANNUAL INCREASE IN REAL GDP
OF NINE PERCENT STARTING IN 1979.
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